

HOUSE BILL REPORT

ESB 6166

As Reported by House Committee On:
Ways & Means

Title: An act relating to the sale of timber from state trust lands.

Brief Description: Concerning the sale of timber from state trust lands.

Sponsors: Senators Hargrove, Ranker, Rockefeller, Jacobsen and Morton.

Brief History:

Committee Activity:

Ways & Means: 4/25/09 [DP].

Brief Summary of Engrossed Bill

- Increases the maximum amount of timber that can be sold by the Department of Natural Resources (DNR) through its contract harvesting program.
- Directs the DNR to set the final appraised value for the purposes of an auction based on the current market prices for the valuable material in question.
- Directs the DNR to consider requests from timber purchasers when the purchasers request timber sales extensions or other flexible options in the execution of a timber sale contract designed to avoid a contract default.

HOUSE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass. Signed by 22 members: Representatives Linville, Chair; Ericks, Vice Chair; Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Dammeier, Assistant Ranking Minority Member; Chandler, Cody, Conway, Darneille, Haigh, Hinkle, Hunt, Hunter, Kagi, Kenney, Kessler, Pettigrew, Priest, Ross, Schmick, Seaquist and Sullivan.

Staff: Owen Rowe (786-7391) and Jason Callahan (786-7117)

Background:

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

The Department of Natural Resources (DNR) sells the majority of timber from state forest lands by putting tracts of timber up for bid. The DNR establishes an appraised value for the timber, which becomes the minimum bid for the timber sale. In most instances, the bidder-awarded contract from the DNR secures the right to harvest and sell all of the timber comprising the sale, regardless of species and size. The successful bidder is responsible for harvesting the timber, generally within three years, and either using or selling the harvested logs.

However, the DNR has the authority to conduct some of their timber bids through a process called contract harvesting. Under this method, the DNR directly contracts for the harvest of a tract and retains ownership of the harvested logs. These logs are then sorted into lots, or groupings of like species and size, and then sold according to their lot. Under this method, the purchaser of the logs is only buying the species and size included in a specific lot.

Except for forest health operations, the authority for the DNR to engage in contract harvesting is limited to up to 10 percent of the total annual volume of timber offered for sale from state forest lands. Contract harvests primarily designed to improve forest health are not counted against the 10 percent cap. All receipts from the gross proceeds of logs that are harvested under the contract harvesting program are deposited into the Contract Harvest Revolving Account (Revolving Account). The funds in the Revolving Account can only be used to pay harvesting costs incurred on contract harvesting sales.

The Board of Natural Resources has oversight of the Revolving Account, and no legislative appropriation is needed for expenditures from the Revolving Account. All interest created by the Revolving Account is deposited into the Revolving Account, but the Revolving Account may not exceed \$1 million at the end of each fiscal year. Monies in excess of \$1 million must be disbursed to the trust beneficiaries in accordance with existing procedures.

Summary of Bill:

Contract Harvesting.

The maximum amount of timber that can be sold by the DNR through the contract harvesting program is increased from 10 percent of the total annual volume of timber offered for sale to 20 percent. In addition, the maximum total amount of money allowed to be held in the Revolving Account prior to distribution is increased from \$1 million at the end of any fiscal year to \$5 million at the end of any calendar year.

These increases are only in effect until the end of the year 2013, at which time the original caps on contract harvesting and maximum balances in the Revolving Account again will apply. By December 1, 2013, the DNR must report on the effectiveness of the increased harvesting cap on the contract harvesting program. This report must include a comparison of contract harvesting revenues with revenues generated through other sale processes.

Provisions Relating to Other Timber Sales.

The DNR is directed to set the final appraised value for the purposes of an auction based on the current market prices for the valuable material in question. This value may be greater than the minimum appraised value for the valuable material.

The DNR is also directed to give consideration to requests from timber purchasers when the purchasers request timber sale extensions or other flexible options in the execution of a timber sale contract designed to avoid a contract default. However, the DNR may not allow flexibility in contracts if the purchaser's request would not be consistent with the DNR's trust management mandates.

By December 1, 2009, the DNR must report on the status of existing contracts, contract extensions, and contract defaults. This report must also include a timber market forecast for 2010 and 2011.

Appropriation: None.

Fiscal Note: Preliminary fiscal note available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) The DNR has the responsibility to generate revenue for its trust beneficiaries and this bill enables the DNR to make additional revenue by essentially changing the ratio of timber it sells on retail or wholesale basis. Recent timber prices have fallen which means less revenue to trust beneficiaries. Private companies can afford to defer timber sales until prices rebound, but the DNR does not have that flexibility. There is some natural tension between sellers and buyers, and the buyers do prefer the flexibility of non-contract harvest sales. However, the bill only has a small increase in contract sales, it is time limited, and it has a strong reporting requirement.

The forest products industry is suffering, perhaps worse than most sectors. The private timber industry needs the DNR and the DNR needs the private industry. When private companies are selling timber, it is important for the DNR to maintain production so there is work for the timber harvesters, haulers, and mills.

Recent harvests put to bid by the DNR have had zero bids. However, those auctions changed from lump sales to contract harvesting sales do sell for a profit. There will be less zero bid sales if the DNR can convert more of them to contract harvesting and have the flexibility to avoid instances when the appraised value of the timber falls between the time the appraisal is made and the time the actual auction is conducted.

(Opposed) None.

Persons Testifying: Heath Packard, Department of Natural Resources; and Tim Boyd, Boise Cascade and Vaagen Brothers.

Persons Signed In To Testify But Not Testifying: None.